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Bootstrapping TSMARS models

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ABSTRACT

BOOTSTRAPPING TSMARS MODELS

by
Liangzhong Chen

We investigate bootstrap inference methods for nonlinear time series models obtained using Multivariate Adaptive Regression Splines for Time Series (TSMARS), for which theoretical properties are not currently known. We use two different methods of bootstrapping to obtain confidence intervals for the underlying nonlinear function and prediction intervals for future values, based on estimated TSMARS models for the bootstrapped data. We also explore the method of **Bootstrap AGG**regat**ING** (Bagging), due to Breiman (1996), to investigate whether the residual and prediction mean squared errors from a fitted TSMARS model can be reduced by averaging across the values obtained from each of the bootstrapped models. We find that, although the estimated parameters of models obtained using TSMARS may differ markedly from one bootstrap replicate to another, fitted values from the estimated models are relatively stable. We also find that Bagging can lead to smaller residual and forecasts errors, but that confidence and prediction intervals based on bootstrapping have a coverage that is much too small.

Key Words: Bootstrapping; Multivariate Adaptive Regression Splines; Nonlinear time series; TSMARS

BOOTSTRAPPING TSMARS MODELS

by
Liangzhong Chen

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APPROVAL PAGE

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To my beloved family

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CHAPTER 1

INTRODUCTION

Nonlinear time series models have been used extensively in recent years to model complex dynamics that cannot be adequately represented using a linear model. One of the techniques that has been used to approximate such complex structure is the method of Multivariate Adaptive Regression Splines for Time Series (TSMARS). TSMARS is based on the MARS algorithm of Friedman (1991), originally introduced as a way to estimate nonlinear regression functions in a computationally efficient manner using a modified recursive partitioning algorithm. Lewis and Stevens (1991) introduced the use of MARS for modeling a time series, $\{y_t\}$, by letting lagged values of the series, y_{t-j} , serve as predictor variables in the MARS algorithm, analogous to linear autoregressive modeling. The models obtained from this procedure are called Adaptive Spline Threshold AutoRegressive (ASTAR) time series models, and are generalizations of the Threshold AR models of Tong (1983). Since their introduction, they have been used to model time series data in such diverse fields as oceanography (Lewis and Ray; 1997), hydrology (Lall and Moon; 1996) and finance (De Gooijer, Ray, and Krager; 1998). A drawback to their use, however, is the lack of knowledge regarding the properties of the estimated models. Dennison and Mallik (1997) describe a Bayesian version of the MARS algorithm, which provides posterior probabilities for each of the possible model terms. Their implementation does not provide information useful for obtaining posterior distributions of fitted values or predictions, however.

In this paper, we investigate the variability of estimated ASTAR models by the bootstrap method. Franke, Kreiss, and Mammen (1997) showed that certain bootstrap methods are valid for estimating the distribution of a simple nonlinear autoregression function obtained using kernel smoothing methods. Neumann and

Kreiss (1997) used a wild bootstrap procedure to obtain confidence bands for nonlinear autoregressive functions estimated using local polynomial estimation. Here we investigate empirically the validity of two bootstrap methods for constructing confidence and prediction bands for nonlinear autoregressive functions and futures values and study the effect on prediction accuracy of using averaged bootstrap replicates for forecasting. Additionally, we attempt to investigate the bootstrap distributions of estimated parameters in an ASTAR model. The rest of the paper is organized as follows. In chapter 2, we provide a brief introduction to the TSMARS algorithm. chapter 3 discusses 2 methods for bootstrapping ASTAR models and the technique of **Bootstrap AGG**regat**ING** (Bagging), introduced by Breiman (1996). chapter 4 gives results of a small simulation study, while chapter 5 gives results for a data example. chapter 6 concludes.

CHAPTER 2

THE TSMARS METHODOLOGY

Although nonparametric modeling does not require an explicit model, the TSMARS methodology is probably best understood through introducing the following setup. Let $\{y_t\}$ be a univariate time series variable that depends on d , ($d \geq 0$) past values of y_t . Assume that there are N observations on $\{y_t\}$ and that the data is presumed to be described by the time series model

$$y_t = f(1, y_{t-1}, \dots, y_{t-d}) + \epsilon_t \quad (2.1)$$

over some domain $D \subset \mathcal{R}^n$, ($n = 2 + d$), which contains the data. Here, 1 denotes a model constant, $f(\cdot)$ is a measurable function from \mathcal{R}^n to \mathcal{R} that reflects the true but unknown relationship between y_t and $(y_{t-1}, \dots, y_{t-d})$ and $\epsilon_t \sim NID(0, \sigma_\epsilon^2)$. The goal is to construct a function $\hat{f}(1, y_{t-1}, \dots, y_{t-d})$ that can serve as a reasonable approximation to $f(1, y_{t-1}, \dots, y_{t-d})$ over the domain D .

2.1 The Algorithm

Within the above context, MARS can be viewed as a generalization of the recursive partitioning regression strategy of Morgan and Sonquist (1963) and Breiman, Friedman, Olshen and Stone (1984) that uses spline fitting rather than other simple fitting functions. Let $\{R_j\}_{j=1}^S$ be a set of S disjoint subregions representing a partitioning of D . Given these subregions, recursive partitioning approximates the unknown function $f(\mathbf{w}_t)$ at $\mathbf{w}_t = (1, y_{t-1}, \dots, y_{t-d})$ in terms of basis functions $B_j(\mathbf{w}_t)$ so that

$$\hat{f}(\mathbf{w}_t) = \sum_{j=1}^S \hat{f}_j(\mathbf{w}_t) B_j(\mathbf{w}_t) \quad (2.2)$$

where $B_j(\mathbf{w}_t) = I\{\mathbf{w}_t \in R_j\}$ and $I\{\cdot\}$ is an indicator function having a value one if $\mathbf{w}_t \in R_j$ ($j = 1, \dots, S$) and zero otherwise. Each indicator function, in turn, is a

product of Heaviside or step functions: $H(z) = 1, z \geq 0; H(z) = 0, z < 0$, describing each subregion R_j . The functions $\{\hat{f}_j(\mathbf{w}_t)\}_{j=1}^S$ are generally taken to be of quite simple form. The most common is a constant function, i.e. $\hat{f}_j(\mathbf{w}_t) = c_j \forall \mathbf{w}_t \in R_j$ (Breiman *et al.*, 1984). The aim is to use the data to simultaneously estimate a good set of subregions, without enforcing continuity at the boundaries, and the parameters associated with the separate basis functions in each subregion.

The recursive partitioning follows a two-step procedure. Starting from the entire domain $R_1 = D$, all existing subregions (parent) are each recursively split into two sibling subregions. The split is jointly optimized over all variables and all observed values using a goodness-of-fit criterion on the resulting approximation $\hat{f}(\cdot)$ to $f(\cdot)$. This is continued iteratively until a large number of disjoint subregions $\{R_j\}_{j=2}^M$, for some prespecified $M \geq S$, are generated. This is called the forward step. In the second, or backward, step the subregions are recombined in a reverse manner until a good set of nonoverlapping subregions is obtained, using a criterion that penalizes both for lack-of-fit and increasing number of regions.

As pointed out by Friedman (1991) and Lewis and Stevens (1991), several problems are associated with the above recursive scheme. In Friedman's (1991) MARS methodology the following two important innovations are introduced. First, to overcome the difficulty in fitting simple smooth functions, Friedman proposed not to automatically eliminate the parent region R_j during the creation of its sibling subregions. In subsequent iterations both the parent and its corresponding subregions are eligible for further partitioning. Also, each parent region may have more than two sets of sibling subregions. Thus one obtains overlapping subregions of the domain D . This allows for much greater flexibility. The second contribution is to replace $B_j(\mathbf{w}_t)$ by products of linear ($q=1$) or cubic ($q=3$) left- and right-truncated regression splines to eliminate discontinuities at the boundaries of adjacent subregions.

Let \mathbf{r}_m represent a 2-tuple associated with the R_m th subregion whose components indicate the direction of a predictor variable at a partition point (threshold) $w_{v,t}^* = t^*$ ($v = 1, \dots, n$). Then left (-) and right (+) truncated spline functions for creating the R_m th and R_{m+1} st subregion from the parent region R_j are defined by

$$T_{j,\mathbf{r}_m}(\mathbf{w}_t^*) = [(t^* - w_{v,t}^*)_+]^{q=1} = (t^* - w_{v,t}^*)_+, \quad (m > j) \quad (2.3)$$

and

$$T_{j,\mathbf{r}_{m+1}}(\mathbf{w}_t^*) = [(w_{v,t}^* - t^*)_+]^{q=1} = (w_{v,t}^* - t^*)_+, \quad (m > j). \quad (2.4)$$

Here $\mathbf{r}_m = (-v, t^*)$, $\mathbf{r}_{m+1} = (+v, t^*)$, and $(u)_+ = u$ if $u > 0$ and 0 otherwise. The scalar $w_{v,t}^*$ is an element of $\mathbf{w}_t^* = (\mathbf{y}_{t-1}, \mathbf{x}_{1,t}, \dots, \mathbf{x}_{m,t})$.

As a result of applying the above modifications to the recursive partitioning model (2.3), the TSMARS estimate of the unknown function $f(\mathbf{w}_t)$ takes the form

$$\hat{f}(\mathbf{w}_t) = c_0 + \sum_{j=1}^S c_j \prod_{k=1}^{K_j} [s_{k,j}(w_{v(k,j),t}^* - t_{k,j}^*)_+] . \quad (2.5)$$

Here c_0 is the coefficient of the constant basis function $B_0(\mathbf{w}_t) = 1$, and the sum is over all remaining basis functions produced by the forward step that survive the backwards deletion step, $s_{k,j} = \pm 1$ and indicates the (left/right) sense of the associated step function. The quantity K_j is the number of factors or splits that give rise to the j th basis function $B_j(\mathbf{w}_t)$. The subscript $v(k,j), t$ ($v = 1, \dots, n$) labels the predictor variables at time t ($t = 1, \dots, N$), and the $t_{k,j}^*$ represent values on the corresponding variables.

Since (2.1) is a nonlinear autoregressive time series model, models such as (2.5) obtained using MARS are called adaptive spline threshold autoregression (ASTAR) models. Lewis and Ray (1997) generalized this model to allow for additional covariate predictor series, numerical or categorical in nature. The resulting models are called Semi-multivariate ASTAR (SMASTAR) models. Clearly, both ASTAR

and SMASTAR models are more general than, respectively, the SETAR and the self-exciting open-loop threshold autoregressive (TARSO) models of Tong (1990). These latter models identify piecewise linear functions over disjoint subregions, which are discontinuous at their boundaries of the domain D of interest. In contrast, the TSMARS methodology derives nonlinear threshold models that are continuous in the domain of the predictor variables. Moreover, in Tong’s SETAR and TARSO approach interactions among lagged predictor variables (if present) are not allowed, whereas this is not the case with TSMARS.

2.2 Forecasting with ASTAR Models

Forecasts for ASTAR models may be obtained in two ways—iteratively or directly. Given y_t, y_{t-1}, \dots , an iterated forecast of y_{t+k} , $k \geq 1$ is computed as $\hat{y}_{t+k} = \hat{f}(\hat{y}_{t+k-1}, \dots, \hat{y}_{t+k-d})$, where $\hat{y}_{t-j} = y_{t-j}$ when $j \leq 0$. The forecasts are computed iteratively beginning with \hat{y}_{t+1} .

A direct forecast of y_{t+k} is computed directly from y_t, y_{t-1}, \dots . An ASTAR model for $\{y_t\}$ is obtained using only values of the series at lags greater than or equal to k as predictors, *e.g.* $\hat{y}_{t+k} = \hat{f}(y_{t+k-k}, \dots, y_{t+k-d})$. When this setup is used, the final model is selected so that it minimizes a function of the in-sample k -step prediction error, as opposed to the model obtained for iterated forecasting, which is optimized for one-step-prediction. A disadvantage of the direct forecasting method is that a different model must be fit for each value of k . In this paper, we concentrate on iterative forecasting, as bootstrapping the estimated direct forecast model for several values of k is more computationally intensive. Of course, if the “correct” model is known, estimation of model parameters to minimize one-step-ahead prediction results in optimal predictions at all forecast steps. However, the TSMARS algorithm is used to obtain only an approximation to the underlying dynamical structure, thus the method of direct forecasting may provide better forecasts in this framework.

2.3 Parameters of the TSMARS Algorithm

The exact form of the selected ASTAR model for y_t depends not only on the nature of the data, but also on the parameters that control the implementation of the TSMARS algorithm, as specified by the user.

A SPAN parameter is used to specify the minimum number of observations allowed between threshold placements for each predictor variable, thus acting to control the level of fine structure captured by the model, similar to the role of the bandwidth parameter in kernel regression. The SPAN parameter may be specified *a priori* or selected to minimize a model selection criterion, such as out-of-sample RMSE. The maximum number of linear truncated spline functions allowed in an interaction term is specified by the Maximum Interaction (MI) parameter. For ease of interpretation, MI is usually set to 2 or 3. An MI value of 1 precludes interactions between predictors. The maximum number of basis functions, MB, allowed in the forward step recursive partitioning algorithm can also be specified by the user. Additionally, a SPEED factor can be set to control the exhaustiveness of the search algorithm, with 1 indicating complete exhaustive search of the predictor space and 5 indicating a modified, less thorough, search. Different depths of search do not seem to affect the accuracy of the approximating models in the regression framework (see Friedman, 1993) but may affect out-of-sample predictive accuracy.

To evaluate model fit, TSMARS uses one of four Model Selection Criteria (MSC): the GCV criterion, the AIC criterion, Amemyia's Prediction criterion, or the Schwarz-Rissanen (SC) criterion. Each is a function of the residual sum of squared errors but with different penalty terms for over-parameterization. When using MARS in a time series setting, the SC criterion (Schwarz, 1978) was found by Stevens (1991) and Lewis and Ray (1993) to give more parsimonious models than does the GCV criterion used by Friedman. This result is consistent with the behavior of the SC

criterion when selecting among linear ARMA(p, q) models, as the SC penalizes for heavily for additional model parameters than do the other criteria.

In our simulation study, we investigate the effects of the SPAN and MSC parameters on the variability of the fitted models. The SPEED parameter is always set to one, indicating complete exhaustive search. The MB parameter is chosen as a function of n , the number of time series observations. We use $MI \leq 3$, for more interpretable models.

CHAPTER 3

BOOTSTRAPPING NONLINEAR TIME SERIES

Bootstrapping time series has been an area of much research in recent years. Initial research focused on parametric residual-based resampling procedures (see, for example, Chatterjee (1986) for a discussion of bootstrapping ARMA(p, q) models and Stine (1987) regarding AR(p) models), while more recent research has looked at nonparametric techniques for generating time series having the same structure as the original using, for instance, block resampling (Künsch, 1989; Liu and Singh, 1992). Berkowitz and Killian (1996) give a review of the different methods available for bootstrapping time series, concentrating on techniques applicable to linear processes. Bootstrap results for nonlinear time series models have only recently begun to be investigated. Franke, Kreiss, and Mammen (1997) discuss the bootstrap for kernel smoothed estimates of nonlinear autoregressive functions, while Neumann and Kreiss (1997) discuss bootstrap confidence bounds for nonlinear functions estimated using local polynomial smoothing. In this paper, we investigate empirically two methods for bootstrapping nonlinear autoregressive time series models obtained using TSMARS: (1) a parametric, residual-based bootstrap approach and (2) a nonparametric, regression-based bootstrap.

3.1 Residual-based Bootstrapping

Let $y_t = f(y_{t-1}, \dots, y_{t-d}) + \epsilon_t$. As discussed in chapter 2, an estimate of $f(\cdot)$, denoted by $\hat{f}(\cdot)$, can be obtained using the TSMARS algorithm. Let $\hat{\epsilon}_t = y_t - \hat{f}(y_{t-1}, \dots, y_{t-d})$. Assuming $\hat{\epsilon}_t$ are approximately independent and identically distributed, *i.e.* $\hat{f}(\cdot)$ approximates the structure of $f(\cdot)$ fairly well, bootstrap samples of y_t may be obtained by resampling with replacement from $\hat{\epsilon}_t$ and setting $y_{t,b} = \hat{f}(y_{t-1}, \dots, y_{t-d}) + \hat{\epsilon}_{t,b}$, $t = d + 1, \dots, n$, where $y_{t,b}$ denotes the b^{th} bootstrap

sample, $b = 1, \dots, B$. The bootstrap samples are used to obtain B additional estimates of $f(\cdot)$. The bootstrap estimates can be used to form confidence intervals on $f(y_{t-1}, \dots, y_{t-d})$, prediction intervals on y_{t+k} , *etc.* Following Franke, Kreiss, and Mammen (1997), only the responses $y_t, t = d+1, \dots, n$ are altered when applying the TSMARS algorithm to the bootstrapped data; the predictor variables y_{t-1}, \dots, y_{t-d} are left unchanged from the original data. This may be thought of analogous to a fixed design in nonparametric regression.

Franke, Kreiss, and Mammen (1997) show that, under some general strong mixing conditions on the process $\{y_t\}$ and Lipschitz continuity conditions on $f(\cdot)$, residual-based bootstrap estimates of $f(\cdot)$ obtained using kernel smoothing have distribution converging to that of the original estimate of the nonlinear autoregression function when $d = 1$. They find that the bandwidth used in the kernel regression for the original data must be smaller than that for the bootstrapped data, to minimize the bias in the estimated $f(\cdot)$. We investigate empirically whether their results hold for nonparametric estimates of autoregression functions obtained using TSMARS, allowing for $d > 1$. Following their findings for the simple case, we use a small SPAN parameter to estimate $f(\cdot)$ for the original data, and a larger SPAN parameter for the bootstrapped data. The motivation for this comes from results in nonparametric regression, where it is known that using a small bandwidth reduces the bias in the estimated regression function, but increases variability. Since our bootstrapped samples are based on the initial estimate of $f(\cdot)$, we would like for this estimate to have small bias (thus a small SPAN parameter is used), whereas we desire the bootstrapped estimates to have smaller variability (thus a larger SPAN is used).

3.2 Regression-based Bootstrapping

The bootstrapped data obtained using residual-based bootstrapping are largely dependent on the initial estimate of $f(\cdot)$, thus bias in this estimate will carry over to the bootstrapped estimates. To mitigate this influence, we also consider a nonparametric method of bootstrapping. Let (y_t, \mathbf{x}_t) denote a pair of observed data points, where $\mathbf{x}_t = (y_{t-1}, \dots, y_{t-d})$. Assuming the pairs (y_t, \mathbf{x}_t) are independent and identically distributed according to the stationary distribution of the vector $(y_t, y_{t-1}, \dots, y_{t-d})$, we can resample from the set $(y_t, \mathbf{x}_t), t = d+1, \dots, n$ to obtain bootstrapped pairs with which to estimate $f(\cdot)$. Note that in this context, the time index t has no meaning, in the sense that the bootstrapped observations $(y_{t,b}, \mathbf{x}_{t,b})$ are reshuffled versions of (y_t, \mathbf{x}_t) . Iterative forecasts of the y_t process are obtained for the regression-based bootstrapped models as for the residual-based bootstrapped models, *i.e.* to forecast y_{n+k} conditional on (y_n, \dots, y_{n+1-d}) , the original data values (y_n, \dots, y_{n+1-d}) are used as the initial predictor values and forecasts obtained iteratively using the bootstrapped estimate of $f(\cdot)$.

In chapter 4, we compare the two methods of bootstrapping on the basis of their mean-squared residual and prediction errors, as well as on the coverage of the bootstrap confidence intervals, for simulated data. For mean-squared error comparisons, we employ the method of **Bootstrap AGG**regat**ING** (BAGGING), described below.

3.3 Bagging Predictors

Bagging predictors is a method for generating multiple versions of a predictor using bootstrap methods and using these to get an aggregated predictor. Breiman (1996) showed that bagging can give substantial gains in accuracy, with actual gains dependent on the instability of the prediction method. For ASTAR models, bagging implies using as an estimate of y_t the average of $\hat{y}_{t,b} = \hat{f}_b(y_{t-1}, \dots, y_{t-d})$, where

$f_b(\cdot)$ denotes the ASTAR model for the b^{th} bootstrapped data set and the average is over all bootstrapped models $b, b = 1, \dots, B$. Thus biased estimates of $f(\cdot)$ are pulled in towards the center of the distribution of estimates, resulting in more stable predictions.

CHAPTER 4

A SIMULATION STUDY

To investigate the reliability of inferences obtained using bootstrapping, we conducted a small simulation study using two different ASTAR models.

4.1 A Simple ASTAR Model

First we generated a series of length $n = 312$ data from the following model:

$$y_t = 1.0 + 0.5(y_{t-1} - 1.0)_+ + 0.5(1.0 - y_{t-1})_+ + \varepsilon_t, \quad (4.1)$$

where ε_t are *i.i.d.* standard Normal random variables. This is a very simple ASTAR model which is continuous at the boundary of the two prediction regions ($y_{t-1} < 1.0$ and $y_{t-1} > 1.0$). We expect that the TSMARS algorithm should be able to “find” the underlying nonlinear relationship between y_t and y_{t-1} for this process. The data was simulated by generating initial value $y_0 = 1.0 + \varepsilon_0$ and using this initial value to generate $y_t, t = 1, \dots, n$ recursively. Effects of the initial condition were mitigated by generating $n^* = 412$ values and using only the last $n = 312$ for analysis. Figure 4.1 shows a time series plot of the simulated series, along with a scatter plot of y_t versus y_{t-1} . The change in behavior when y_{t-1} is above or below one is evident, although the behavior is quite noisy.

We used $n_0 = 300$ observations for model fitting and used the remaining $n_v = 12$ observations for forecast evaluation. These values were chosen because they correspond to forecasting monthly data one year ahead using information from the past 25 years, which is common for data seen in many economic and financial applications. We allowed up to $d = 6$ possible predictors in the estimated model, with interactions up to level $MI = 2$. The number of basis functions allowed in the forward steps of the algorithm was $MB = 30$. We let $d = 6$ in order to see how well TSMARS is able to correctly select the true number of lagged variables in the model

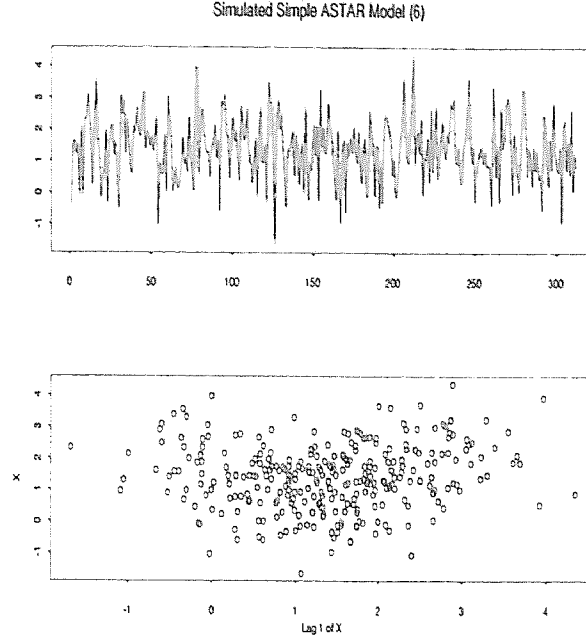


Figure 4.1 Simulated Data from Model (6)

when $d > p = 1$. Masaratto (1990) discusses the use of the bootstrap algorithm to reflect the true sampling uncertainty of the lag order estimate for linear $AR(p)$ models. We let $MI = 2$ to see if the algorithm correctly discards potential prediction regions distinguished by interactions between lagged variables. Various values of the SPAN and MSC parameters were used, in order to investigate the effect of these values on the resulting models.

As an example, the following model was obtained for the simulated data using $SPAN = 5$, $MSC = AIC$.

$$\begin{aligned} \hat{y}_t = & 0.988 + 0.490(y_{t-1} - 1.042)_+ \\ & + 2.116(1.042 - y_{t-1})_+(y_{t-4} - 0.614)_+ \\ & - 2.433(1.042 - y_{t-1})_+(y_{t-4} - 1.060)_+. \end{aligned} \quad (4.2)$$

We see that the constant and the coefficient and threshold values for the first term of the true model are estimated quite accurately, however the behavior of y_t in the

Table 4.1 Residual and Prediction Mean-squared Errors for Original Model

Span	GCV		AIC		SC	
	Residual	Prediction	Residual	Prediction	Residual	Prediction
5	0.934412	0.980213	0.934412	0.980213	1.062419	1.073933
10	0.961659	0.985471	0.961659	0.985471	1.062419	1.073933
25	0.950053	0.992204	0.950053	0.992204	1.062419	1.073933

region $y_{t-1} < 1.0$ is modeled as a function of the interaction between y_{t-1} and y_{t-4} . If $y_{t-4} < 0.614$, $f(\cdot)$ is estimated to be constant.

Table 4.1 gives the mean-squared residual and prediction errors for the estimated models using different selection criteria and spans. The GCV and AIC selection criteria choose the exact same model for each span. The AIC/GCV selected Span 5 model has the smallest residual MSE as well as the smallest prediction MSE. The SC criterion chooses the same model regardless of span.

Table 4.2 gives the MSEs based on bootstrap aggregation using residual-based bootstrapping. We used 500 bootstrap replicates for inference. Breiman (1996) uses between 25 and 50 bootstrap replications for Bagging; we used more because we also use the bootstrapped estimates to obtain confidence and prediction bounds. A larger number of bootstrap replicates are required to construct valid bootstrap confidence intervals than to obtain point estimates of quantities such as the standard deviation (see, for example, Efron and Tibshirani (1993)). We see that bagging reduces the residual MSE only minimally for most MSC and Span combinations, and actually increases the MSE for the Span 2/5, GCV selected models. The forecast MSE is reduced by Bagging for all MSC and SPAN combinations, although the decrease is, again, small. Of course, Breiman (1996) states that bagging provides improvement only if the unbagged model is not optimal. Because Model (4.1) is a relatively simple model, improvement from bagging may be only minimal.

Table 4.2 Residual and Prediction Mean-squared Errors using Residual-based Bagging

Span		GCV		AIC		SC	
Orig	Boot	Residual	Prediction	Residual	Prediction	Residual	Prediction
2	5	0.9403746	0.9777226	0.9408768	0.9777226	1.024202	1.041618
	10	0.9419735	0.9798780	0.9412165	0.9788809	1.026542	1.041618
	25	0.9454344	0.9830413	0.9448032	0.98195301	1.025597	1.042476
5	5	0.9434259	0.9771637	0.9428728	0.9761576	1.062337	1.073590
	10	0.9450768	0.9803677	0.9443833	0.9781980	1.062419	1.073455
	25	0.9491230	0.9843181	0.9480453	0.9854283	1.062419	1.073455

Figure 4.2 shows the 90% pointwise confidence and prediction intervals for y_t based on quantiles of $\hat{y}_{t,b}$. The dotted lines denote the confidence bands, while the solid line denotes the actual data observations. Only 32% of the observed values are contained in the bootstrap confidence bounds. We also constructed confidence bounds based on an approximate normal distribution using $\bar{y}_{t,b} \pm 1.645\sigma_{t,b}$, where $\bar{y}_{t,b}$ denotes the average of the bootstrap fitted values at time t and $\sigma_{t,b}$ denotes the standard deviation in bootstrap fitted values at time t . These bounds were also much too narrow.

We also are interested in the distribution of the ASTAR model parameter estimates, to see how much faith one can have in an interpretation of underlying system behavior based on a fitted ASTAR model. Table 4.3 gives the percentage of times that a term containing predictor variable y_{t-d} , $d = 1, \dots, 6$ was included with no interactions in a model for the bootstrapped data selected using SPAN=5 and AIC; the third and fourth columns break down these percentages by whether the variable entered as part of a right or left truncated spline function. Predictors entering with different threshold values in the same model were counted only once. We see that a term containing y_{t-1} is included in 80% of the bootstrapped models, although only 37% contain a term of the form $(t - y_{t-1})_+$. The average estimated coefficient for all

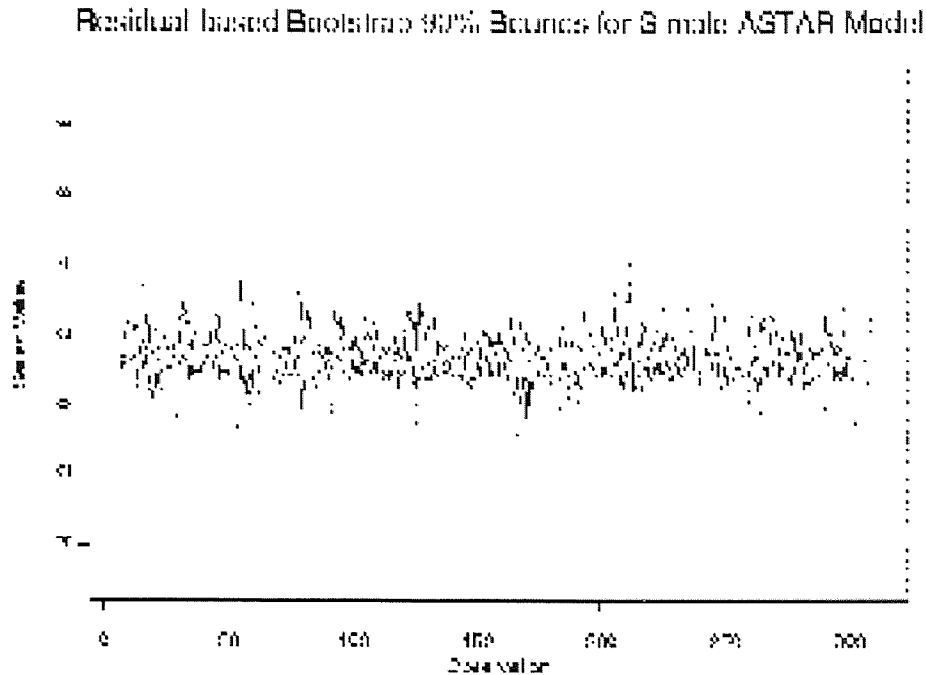


Figure 4.2 90% Pointwise Confidence and Prediction Intervals for Simulated Data from Model (6) obtained using Residual-based Bootstrapping

terms of the form $(y_{t-1} - t)_+$ is 0.53 with standard deviation 3.141, while the average threshold value for terms of this type is $t = 1.05811$ with standard deviation 0.5892. Thus, on average, the estimated AR coefficient in the region $y_{t-1} > 1.0$ is on target, although the variance is very large. The average estimated threshold is also quite close to the true threshold value. The average coefficient value for terms of the form $(t - y_{t-1})_+$ is 0.977 (standard deviation 1.073), compared to 0.5 for the true model. For terms of this type, the average threshold value is $t = 1.08314$ with standard deviation 0.3239. In this region, the dependence structure between y_t and y_{t-1} is overestimated, although the threshold value is again on target. The average of the constant terms in the bootstrapped models is 0.9944 (standard deviation 0.8289), close to the true value 1.0.

Table 4.3 Bootstrap Probabilities of obtaining a First-level Interaction Term containing y_{t-d}

Predictor	p	p_+	p_-
y_{t-1}	0.800	0.676	0.372
y_{t-2}	0.080	0.060	0.026
y_{t-3}	0.074	0.062	0.026
y_{t-4}	0.012	0.008	0.048
y_{t-5}	0.098	0.070	0.038
y_{t-6}	0.100	0.056	0.052

Table 4.4 Residual and Prediction Mean-squared Errors using Bagging for Regression-based Bootstrapping

Span	GCV		AIC		SC	
	Residual	Prediction	Residual	Prediction	Residual	Prediction
5	0.7783281	1.060405	0.7566608	1.065374	0.9540437	0.994472
10	0.7939817	1.006886	0.7740856	1.038579	0.9615558	0.999594
25	0.8525223	1.019330	0.8365120	1.025367	0.9778284	1.007926

Table 4.4 gives MSE results using regression-based bootstrapping. We see that the regression-based bootstrap method gives an improvement in residual MSE for all selected spans and model selection criteria. The improvement is greatest, about 15%, when a moderate span and the GCV or AIC selection criteria are used. The forecast MSE improves only for models selected using the SC criterion. As discussed in chapter 2, the SC criterion penalizes more heavily for additional parameters in the model; the superior forecast performance for SC selected models indicates that the other MSC may be over-fitting the data, thus giving good in-sample performance, but worse out-of-sample performance. The improvement in forecast MSE with the SC using bagging is only about 7%, however.

Figure 4.3 shows the 90% pointwise confidence and prediction intervals for y_t obtained using regression-based bootstrapping with MSC=AIC and Span=5. About 62% of the observed values are contained in the confidence bounds. Thus, although

the regression-based bounds give better coverage than the residual-based bounds, both bootstrap methods underestimate the true variability in the underlying process

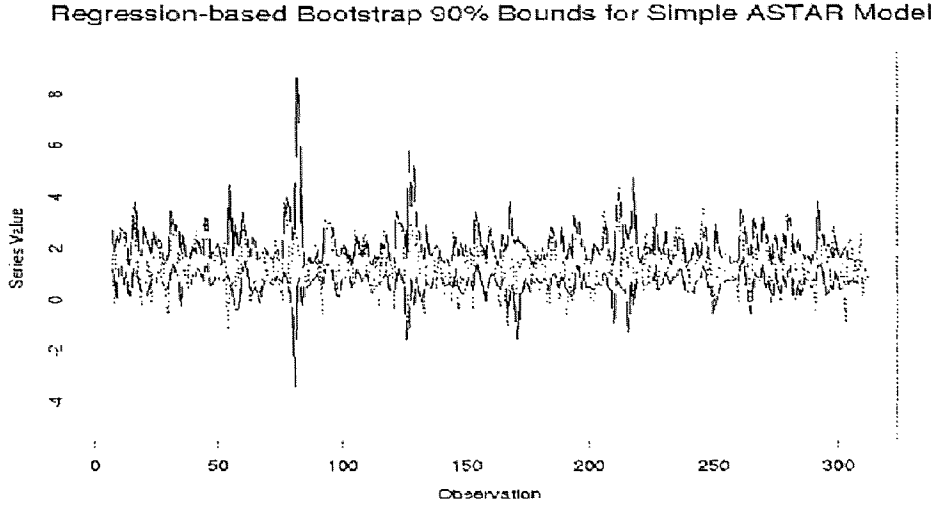


Figure 4.3 90% Pointwise Regression-based Bootstrap Confidence and Prediction Intervals for Series Generated from Model (6)

Table 4.5 gives the bootstrap probabilities for first-level interaction terms containing y_{t-p} using regression-based bootstrapping. Compared to the residual-based bootstrap results, there is a higher probability that unnecessary predictor variables ($y_{t-p}, p > 1$) will be included in the model. The average estimated coefficient for all terms of the form $(y_{t-1} - t)_+$ is 0.528 with standard deviation 10.806, while the average threshold value is $t = 1.319$ (standard deviation 0.9373). The average coefficient value for terms of the form $(t - y_{t-1})_+$ is 2.133 with standard deviation 2.944. For terms of this type, the average threshold value is $t = 0.8889$ (standard deviation 0.3576). The average of the constant terms in the models is 0.9512 (standard deviation 3.14). Again, although the average AR(1) coefficient for the region y_{t-1} is close to the true value of 0.5, the variability in estimated coefficients is even larger than for the residual-based bootstrapping.

Table 4.5 Bootstrap Probabilities of obtaining a First-level Interaction Term containing y_{t-p} using Regression-based Bootstrapping

Predictor	p	p_+	p_-
y_{t-1}	0.892	0.662	0.630
y_{t-2}	0.208	0.134	0.142
y_{t-3}	0.232	0.172	0.188
y_{t-4}	0.308	0.224	0.170
y_{t-5}	0.376	0.306	0.194
y_{t-6}	0.222	0.176	0.116

4.2 An ASTAR Model with Interactions

To examine the stability of TSMARS for data generated from more complicated ASTAR models, such as those containing interactions between predictor variables, we simulated a series of length $n = 312$ from the following generating process.

$$y_t = 0.0019 - 0.395(y_{t-12} - 0.014)_+ - 1.3822(0.018 - y_{t-2})_+(y_{t-12} - 0.014)_+ + \epsilon_t, \quad (4.3)$$

where ϵ_t are *i.i.d.* standard Normal random variables. The terms in the model are the same as the first 2 terms of a fitted ASTAR model for weekly US \$/Japanese Yen exchange rates obtained by De Gooijer, Ray, and Krager (1998), in a study of TSMARS models for forecasting exchange rates. Figure 4.4 shows the simulated series.

As in the previous example, we used $n_0 = 300$ observations for model fitting and used the remaining $n_v = 12$ observations for forecast evaluation. We allowed up to $d = 24$ possible predictors in the estimated model, with interactions up to level $MI = 3$. The number of basis functions allowed in the forward steps of the algorithm was $MB = 40$.

Using Span=5, MSC=SC, we obtained the following ASTAR model:

$$y_t = -.064386 - 1.4547(0.189 - y_{t-2})_+(y_{t-12} + 0.026)_+ \quad (4.4)$$

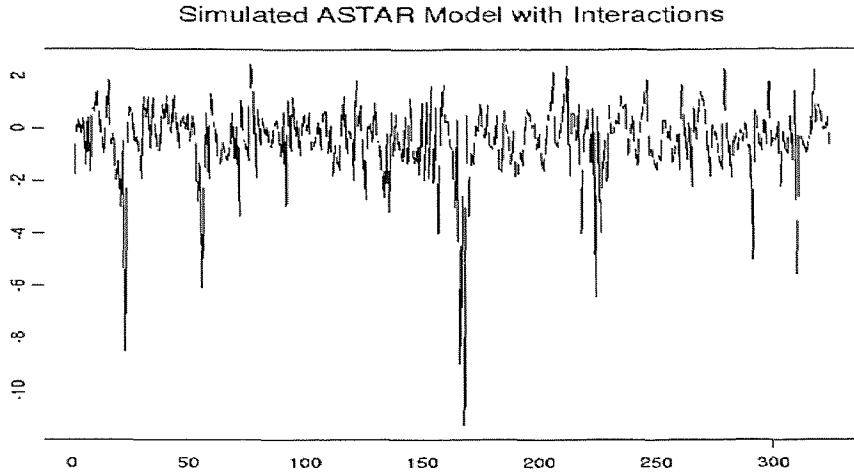


Figure 4.4 Simulated Data from ASTAR Model (9)

Table 4.6 Residual and Prediction Mean-squared Errors for Original Model

Span	GCV		AIC		SC	
	Residual	Prediction	Residual	Prediction	Residual	Prediction
5	0.5496281	2.309141	0.5129724	2.777217	0.9548876	2.518108
10	0.6844657	2.316516	0.6348445	1.975904	0.9420701	2.245201
25	0.9607800	2.499653	0.9607800	2.499653	0.9607800	2.499653

The fitted model picks up the nonlinear interaction between y_{t-2} and y_{t-12} with approximately the correct spline and coefficient terms, but the threshold value for y_{t-2} is much too large. The level-one interaction term is not estimated at all. Models obtained using GCV or AIC were much more complex than that of (4.4), containing several three-level interactions; a level-one y_{t-12} right-truncated spline term and a two-level interaction term exactly like that in (4.4) were included in the AIC and GCV selected models, however.

Table 4.6 gives the mean-squared residual and prediction errors for models estimated using the original data. Table 4.7 gives the results based on bootstrap aggregation using residual-based bootstrapping. Table 4.8 gives results using

Table 4.7 Residual and Prediction Mean-squared Errors using Residual-based Bagging

Span		GCV		AIC		SC	
Orig	Boot	Residual	Prediction	Residual	Prediction	Residual	Prediction
2	5	0.8081216	1.962958	0.6508189	2.447871	0.9650951	2.439377
	10	0.8229317	2.068238	0.6649029	2.524042	0.9659420	2.450676
	25	0.8726104	2.103839	0.7213675	2.419448	0.9842511	2.741726
5	5	0.6902169	8.423127	0.6250343	2.190992	0.9688067	2.461484
	10	0.7020560	2.379514	0.6366356	2.395488	0.9696619	2.465350
	25	0.7650290	2.591722	0.6894587	2.552349	0.9854641	2.730348

Table 4.8 Residual and Prediction Mean-squared Errors using Bagging for Regression-based Bootstrapping

Span	GCV		AIC		SC	
	Residual	Prediction	Residual	Prediction	Residual	Prediction
5	0.4669786	∞	0.4515780	∞	0.8321483	2.276020
10	0.4650129	1064.414000	0.4490778	21134.490000	0.8448103	2.291352
25	0.5101262	9.135077	0.4868279	10.271190	0.8840815	2.224693

regression-based bootstrapping. All bootstrap results are based on 500 replications. Residual-based bootstrapping gives reductions in residual MSE only for Span 25 models and reduces forecast MSE only for original Span 2 bootstrapped models selected using GCV and the Span 2/5 model selected using SC. Regression-based bootstrapping gives an improvement in residual MSE for all selected spans and model selection criteria. The improvement is greatest, about 15%, when a moderate span and the GCV or AIC selection criteria are used. The prediction MSE improves only for the Span 5 and Span 25, SC selected models. The prediction MSEs for the other SPAN, MSC combinations are very large or even infinite. A value of infinity indicates that for certain bootstrap models, iterative forecasts “blow up”, suggesting instability of the bootstrapped model. The complexity of ASTAR processes makes it very difficult to understand the stationarity and ergodicity properties of the models. These issues may be investigated via simulation, as in De Gooijer and Brännas (1995), and are an area for future research. As a way around the problem in practice, a check can be used in the bootstrap algorithm to discard unstable models having extremely large predicted values.

CHAPTER 5

AN APPLICATION

The series of yearly Wolf sunspot numbers, a measure of the average monthly sunspot activity on the surface of the sun, has been the focus of much analysis in time series because of its interesting nonsymmetric cyclic behavior. Tong (1983; 1990) attempted to model the series using a TAR model, while Rao and Gabr (1984) used a bilinear model. Figure 5.3 shows a time series plot of the sunspot data over the period 1700-1920. We see that the data behaves in a periodic fashion, with extremely sharp peaks and troughs, although the cycles vary from 10 to 12 years. A greater number of sunspots is concentrated in each descent period relative to the number in the corresponding ascent period. Lewis and Stevens (1991) applied the TSMARS methodology to the sunspot data, allowing up to $d = 20$ lagged values of the series as predictors. They obtained various models by trying different algorithm parameter values and report detailed analysis for a model obtained using MI=3, MB=15, and SPAN=18. In their analysis, model selection was done using GCV. Their fitted model contained nonzero single-factor terms at lags 1, 5, and 9, with interactions between sunspot values lagged by 1 and 2 months, 1 and 3 months, 1 and 4 months, and 1, 2, and 5 months. Because of the lack of inference methods for ASTAR models, however, it is unclear whether each of the estimated terms in their model is statistically significant. Lewis and Stevens also obtained predictions for the sunspot data for the years 1921-1955. Although they were able to show that their fitted ASTAR models improved significantly upon alternative linear and nonlinear models using out-of-sample validation, they did not provide prediction intervals.

In this chapter, we apply the bootstrap methods of chapter 3 to the sunspot data. We want to see if bootstrapping can be used to obtain more stable fits and forecasts, as well as to obtain reliable bootstrap confidence and prediction intervals.

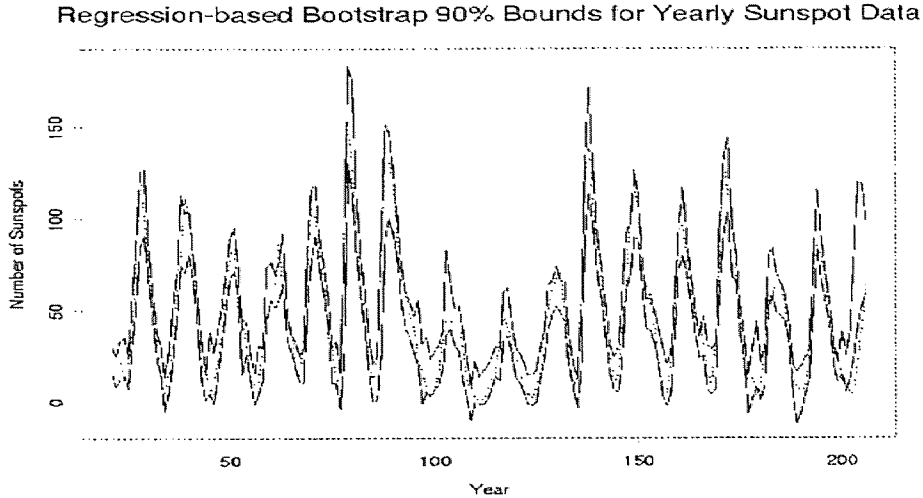


Figure 5.1 90% Confidence and Prediction Bounds for Sunspot Data using Regression-based Bootstrapping

We use the same number of predictors, forward basis functions, and maximum interactions as Lewis and Stevens (1991), varying the span parameter and the model selection criterion to assess their effect on the original and bootstrapped model results. We use the fitted models to iteratively predict the sunspot numbers five years into the future. Predictions from many of the bootstrapped models were unstable at lead times longer than five years.

Table 5.1 gives residual and prediction MSEs for the original sunspot data using different spans and model selection criteria. The AIC model selection criterion with Span=9 gives the smallest in-sample residual mean-squared error, while the Span 9, SC model provides the best out-of-sample forecast performance. Analogous results are true for models fitted using Span=18.

Table 5.2 gives results based on Bagging models for residual-based bootstrapped data. Bagging does not reduce in-sample MSEs except for models selected using SC, but substantially reduces out-of-sample forecast MSEs about 15% on average for all analyzed spans and selection criteria.

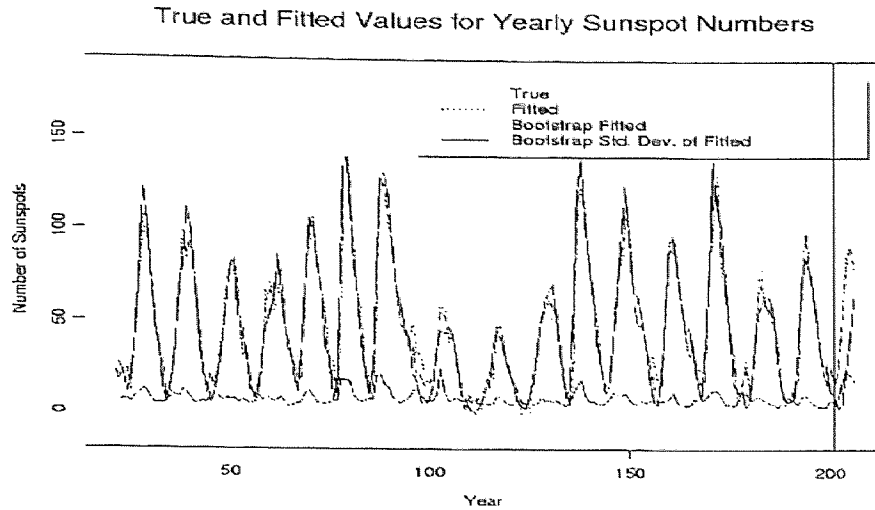


Figure 5.2 Fitted Values from Original and Bagged Models for Sunspot Data selected using Span 9 and MSC=SC

Table 5.1 Residual and Prediction Mean-squared Errors for ASTAR Models of Sunspot Data

	GCV		AIC		SC	
Span	Residual	Prediction	Residual	Prediction	Residual	Prediction
9	110.2271	3002.6190	106.6938	2754.1210	155.7564	1821.2640
18	122.7280	2687.9830	115.6010	2711.3900	143.8723	2311.7120

Table 5.3 give results based on Bagging models for regression-based bootstrapped data. We see that regression-based bootstrapping using Span=9 gives a reduction in residual MSE of about 26% when a model is selected using GCV or AIC. The reduction in residual MSE is almost 40% when the SC is used for model selection, however the prediction MSE is only reduced by about 5% when MSC=SC and Span=9. Reductions in prediction MSE for the GCV and AIC model selection criteria are much larger, between 21% and 29%. Similar results hold when Span 18 is used, although the reduction in prediction MSE using SC is larger than that obtained using Span=9. Using the AIC or GCV criteria with a smaller SPAN

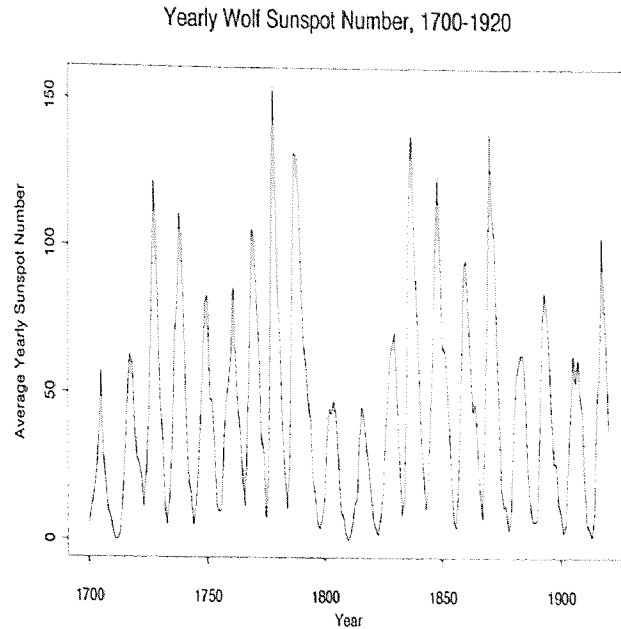


Figure 5.3 Yearly Wolf Sunspot Numbers, 1700-1920

seems to reduce in-sample prediction error, but increases out-of-sample forecast performance. The algorithm is most likely over-fitting the data, resulting in poor out-of-sample forecasts. Overall, residual-based bootstrapping gives greater decreases in residual and prediction MSEs than regression-based bootstrapping for the sunspot data using the SC for model selection.

Figure 5.1 shows 90% confidence and prediction intervals for the sunspot data obtained using Span=9, MSC=SC and regression-based bootstrapping. The confidence bounds contain only 76% of the observed data values; the prediction bounds do not completely capture the bottom of sunspot cycle. Figure 5.2 shows observed and fitted sunspot values from the original model using Span 9 and MSC=SC, along with the fitted values obtained using Bagging of regression-based bootstrap results. The solid line in the plot shows the standard deviation in bootstrap fitted values. The vertical line at $t = 201$ marks the beginning of predicted values.

Table 5.2 Residual and Prediction Mean-squared Errors for Sunspot Data using Residual-based Bootstrapping

Span		GCV		AIC		SC	
Orig	Boot	Residual	Prediction	Residual	Prediction	Residual	Prediction
2	9	120.5182	2567.5680	110.9379	2599.7730	135.1011	1595.5350
2	18	124.5948	2486.4170	116.3675	2505.8110	139.7414	1487.4310
5	9	120.6372	2556.1390	110.8234	2602.6310	135.6463	1569.8080
5	18	124.7665	2508.6110	116.4093	2502.0350	140.3731	1470.6260

Table 5.3 Residual and Prediction Mean-squared Errors for Regression-based Bootstrapped TSMARS Models of Sunspot Data

Span	GCV		AIC		SC	
	Residual	Prediction	Residual	Prediction	Residual	Prediction
9	80.890970	2144.8610	80.282570	2190.2770	93.083600	1724.1300
18	85.856230	2202.0370	84.969310	2255.1480	99.233220	1712.7660

Table 5.4 Bootstrap Probabilities of obtaining a First-level Interaction Term containing y_{t-p} using Regression-based Bootstrapping

Predictor	p	p_+	p_-
y_{t-1}	0.998	0.956	0.264
y_{t-2}	0.484	0.134	0.420
y_{t-3}	0.084	0.016	0.074
y_{t-4}	0.056	0.030	0.044
y_{t-5}	0.052	0.040	0.048
y_{t-8}	0.072	0.046	0.046
y_{t-9}	0.334	0.058	0.324
y_{t-18}	0.066	0.066	0.008

We see that the standard deviations are higher when the sunspots values are near the top of their cycle. Additionally, the fitted values from the original model sometimes take negative values, while the bootstrap fitted values are all positive.

Table 5.4 gives the percentage of regression-based bootstrapped models containing a y_{t-d} level-one interaction term and the percentage of times the term was of the form of a right (p_+) or left (p_-) truncated spline. Only lagged terms appearing in at least 5% of the bootstrapped models are included in the table. We see that a term involving y_{t-1} appears in almost every model, primarily in the form of a right-truncated spline function. Lag 2 and Lag 9 terms also appear in a large percentage of the bootstrapped models. The original model of Lewis and Stevens (1991) contained Lag 1, Lag 5, and Lag 9 first-order interaction terms. The small percentage of bootstrapped models containing a Lag 5 terms casts doubt on the significance of this term in the original model.

CHAPTER 6

DISCUSSION

Bootstrapping provides a simple method for obtaining confidence bounds and prediction intervals for data modeled using TSMARS, however for the examples presented here, coverage of the bootstrap intervals was consistently too small. In general, residual-based bootstrapping seems to provide greater reductions in residual and prediction MSEs, while confidence intervals based on regression-based bootstrapping provide coverage closer to nominal. We prefer the regression-based method, as it is a nonparametric procedure. Although the bootstrap methods discussed here can provide estimated parameter distributions for lagged and thresholded predictor variables, it can become extremely complicated to categorize these estimates by level of interaction, predictor lag, and term type (right or left truncation), as the number of possible categories has the potential to be quite large for even moderate values of d when $MI \geq 2$. The importance of different predictor variables can, however, be assessed by looking at the percentage of times a particular lagged variable appears in the bootstrapped models, regardless of the term type. This type of result is similar to that obtained using the Bayesian MARS methodology of Dennison and Mallik (1997), although their implementation of the MARS procedure is more restrictive in that many algorithm parameters, such as MI and $Span$, are fixed.

Future work will examine other bootstrap methods for ASTAR models, such as the wild bootstrap. Consistency results for bootstrap procedures in the TSMARS framework present many challenging theoretical problems.

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